



CITY OF REDDING, CALIFORNIA

COUNCIL POLICY

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SHORT-TERM OPERATING DEBT POLICY

The expenses associated with the day-to-day operations of the City will be covered by current revenues. However, because the City receives the majority of its property tax revenues and a substantial portion of its sales tax revenue at two (2) times during the year and other revenues may fluctuate during the year, the City may experience temporary cash shortfalls. In order to finance these temporary cash shortfalls, the City may incur short-term operating debt [typically, tax and revenue anticipation notes (TRANs)]. The amount of the short-term operating debt will be based on cash flow projections for the fiscal year and will comply with applicable Federal and State regulations. Operating revenues will be pledged to repay the debt, which will generally be repaid within fifteen months or less. The costs of such borrowings will be minimized to the greatest extent possible.

LONG-TERM CAPITAL DEBT POLICY

The long-term capital debt policy sets the parameters for issuing debt and provides guidance in the timing and structuring of long-term debt commitments. This policy does not apply to the following types of transactions and situations: land-based financings (typically, assessment districts); payroll related liabilities (e.g., pension plans and other post employment benefits); landfill closure and post closure related liabilities; and risk management related liabilities. The City will consider the issuance of long-term obligations under the following conditions:

1. The City will use debt financing only for capital improvement projects, including the acquisition of land, facilities and infrastructure, and equipment purchases, and generally under the following circumstances:
 - a. When the project is or will be included in the City's budget.
 - b. When the project is not included in the City's budget but it is an emerging need whose timing was not anticipated during the budget preparation cycle, the planned financing of the project had not been completed during the budget cycle, or it is a project mandated immediately by State or Federal requirements.
 - c. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.



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- d. When there are revenues sufficient to service the debt and maintain existing bond covenants, whether from project revenues or other identified revenue sources.
- e. When the repayment of the debt can be demonstrated by being included in a current long-range financial plan for all funds affected.
- 2. The following criteria will be used to evaluate pay-as-you-go versus long-term debt financing in funding capital improvements and equipment:
 - a. Factors which favor pay-as-you-go:
 - (1) Current revenues and adequate fund balances are available.
 - (2) Project phasing is feasible.
 - (3) Debt levels would adversely affect the City's credit rating.
 - (4) Market conditions are unstable or present difficulties in marketing.
 - b. Factors which favor long-term financing:
 - (1) Current revenues and fund balance are not adequate to pay for the capital improvements or equipment.
 - (2) Projected revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating.
 - (3) The project for which financing is being considered is of the type that will allow the City to maintain an appropriate credit rating.
 - (4) Market conditions present favorable interest rates and demand for municipal financings.
 - (5) A project is mandated by State or Federal requirements and current revenues and fund balances are insufficient to pay project costs.
 - (6) A project is immediately required to meet or relieve capacity needs.
 - (7) The life of the project or asset financed is three years or longer.



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3. The City may issue and incur the following types of debt as dictated by specific project needs and considerations:
 - a. Certificates of Participation (COPs) / Revenue bonds
 - b. Commercial Paper (CP)
 - c. Notes
 - d. Bond anticipation notes (BANs)
 - e. Capital lease debt
 - f. Lease-purchase financing
 - g. State revolving fund (SRF) loans
 - h. Bank loans / direct purchases
 - i. Private placements
4. The City may issue debt on a fixed or variable rate basis.
 - a. The City will generally issue long-term obligations on a fixed-rate basis, wherein at the time of the bond sale all interest rates are known and do not change while those bonds are outstanding. Fixed-rate bonds ensure budget certainty through the life of the securities.
 - b. The City may consider variable rate debt in certain instances. It may be appropriate to issue short-term or long-term variable rate debt to diversify the City's debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. The City will maintain a conservative level of outstanding variable debt in consideration of general rating agency guidelines recommending a maximum of a 20-30% variable rate exposure, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream. Under no circumstances will the City issue variable rate debt solely for the purpose of earning arbitrage.



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5. The following will be considered in evaluating appropriate debt levels:
 - a. General Fund supported debt service will generally not exceed 10% of total budgeted expenditures, without specific City Council approval to exceed the 10% limitation.
 - b. The General Fund may be used to provide back-up liquidity to improve the viability of a self-supported debt issue (excluding land-based financings), but only if the General Fund is not exposed to significant risk of loss of assets or impairment of liquidity. This evaluation of risk will consider such things as the following:
 - (1) Volatility and collectability of the revenue source identified for repayment of the debt.
 - (2) The likelihood the General Fund would be reimbursed within one year for any payments it could need to make in its role as back-up guarantor.
6. The City is responsible for verifying compliance with all undertakings, covenants, and agreements of each debt issuance on an ongoing basis. This typical includes ensuring:
 - (1) Annual appropriation of revenues to meet debt service payments
 - (2) Timely transfer of debt service payments to the trustee or paying agent
 - (3) Compliance with insurance requirements
 - (4) Compliance with rate covenants where applicable
 - (5) Compliance with all other bond covenants
7. The adoption of resolutions of intent will be considered whenever a bond issuance is contemplated to increase the flexibility related to funding costs related to the project (e.g., project development costs, architectural costs, studies, etc.).
8. Typically the costs incurred by the City, such as bond counsel, underwriter



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fees, financial advisor fees, printing, underwriters' discount, will be charged to the bond issue to the extent allowable by law. Project design and construction costs, to the extent included in the project financing plan and allowable by law, should be reimbursed from bond proceeds.

9. The City may seek credit enhancements, such as letters of credit or insurance, when beneficial or cost-effective.

10. The City will fully comply with Federal arbitrage and rebate regulations. Any instances of noncompliance will be reported to the City Council. To the extent any arbitrage rebate liability exists, the City will report such liability in its annual Comprehensive Annual Financial Report (CAFR). The Finance Director and other City Officials, as appropriate, shall be responsible for the following:
 - a. Monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the City shall meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be reasonably expected that 85% of the proceeds will be expended within the three-year temporary period.

 - b. Monitoring the investment of bond proceeds with awareness of rules pertaining to yield restrictions. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.

 - c. Contracting the services of outside arbitrage consultants to establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.

11. The City will seek to maintain or improve its current bond rating and will not ordinarily consider long-term debt that, through its issuance, would cause the City's bond rating to be lowered or compromise the City's core policy objectives.

12. Ratings are important for the financial and operational health of the City. The City will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus (Official Statement).



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13. The City may obtain financing through a competitive basis or negotiated basis. If the City uses a negotiated financing, the City will perform steps necessary to ensure that the negotiated financing is competitive with similar current-long term financings.
14. The City will select financial advisors and/or underwriters on a competitive basis; these advisors may be retained for up to seven years to provide continuity and allow them to develop an understanding of the City's needs. Trustees and/or paying agents will be selected by competitive bid.
15. Interfund borrowing will be considered to finance projects on a case-by-case basis, only when sufficient funds are available to meet projected future expenditures in the fund making the loan. Interfund borrowing may be used when it would reduce costs of interest, debt issuance, and/or provide other benefits to the City.
16. The term of long-term debt instruments will not exceed the legal life of the asset or thirty years, whichever is less.
17. Bond proceeds will be invested in accordance with the provisions of the bond indenture. Funds set aside for debt service will only be used for that purpose.
18. Refundings will be considered to reduce interest costs, principal outstanding, or to eliminate restrictive debt covenants.
19. Pooled financings with other government agencies will be considered, as appropriate. Communication and coordination will be made with local governments regarding the cost sharing in potential joint projects, including leveraging grants and funding sources.
20. The City is authorized to join with other special districts and/or municipal agencies to create a separate entity, a Joint Powers Authority (JPA), to issue debt on behalf of the City, the special district or municipality. The City will only be liable for its share of debt service, as specific in a contract executed in connection with the JPA debt.

Amended on December 20, 2016 by Resolution 2016-130